

Perspectives of Development Community

To help craft policies that will support transit-oriented development around light rail stations, the City of Seattle's consultant team conducted small group interviews over the course of a day with 50 individuals involved in the design, development, and financing of new housing, retail spaces, and offices. These interviews helped identify some of the opportunities and obstacles for more dense, pedestrian-oriented development around transit stations. While the individuals interviewed presented a range of viewpoints, common themes emerged about the development potential in station areas and the appropriate direction of future City policies.

Over 125 individuals were mailed an invitation from Seattle Mayor Paul Schell, inviting them to participate in the focus groups. Approximately 50 individuals participated in one-hour meetings at a downtown hotel on June 30, 1998. The focus group participants included for-profit and not-for-profit developers, bankers, land-use attorneys, appraisers, architects, realtors, and property owners. A list of the participants is included in Appendix A. Three meetings were held every hour on the hour with groups of four or fewer people. The meetings were kept small to encourage full participation by attendees.

ORGANIZATION OF GROUPS

The participants were grouped in small meetings according to three topic areas: 1) City Policies to Encourage Transit-Oriented Development, 2) Market Conditions and the Demand for New Space, and 3) Urban Design. In practice, the discussions tended to range over all of these topics with an emphasis on the particular specialty of the participant. One of the conditions of the interviews was that there would be no direct attribution of views to the individuals attending in order to encourage a candid appraisal of the opportunities and challenges for encouraging transit-oriented development. The meetings began with a brief overview of the City's planning process for the Sound Transit light rail system and review of some of the key features of transit-oriented development. At the end of each discussion, participants were asked to name three things the city could do to facilitate transit-oriented development.

The results of the discussions are reported by topic and organized as follows:

- Market Conditions
- Financing
- Planning
- Design
- Zoning Revisions
- Parking
- Top Recommendations

MARKET CONDITIONS

Most people interviewed agreed that the location of a light rail station by itself was not enough to spur significant new development. Several participants cited examples from other cities where a new rail transit station alone did not turn around an economically disadvantaged area. In general, the participants felt that new development requires a combination of positive market conditions and other supportive policies to encourage transit-oriented development.

Several developers emphasized that it will take decades to realize more intensive development around transit stations. They pointed to the experience in Seattle with the Denny Regrade that has taken over twenty years to begin to realize the plans made in the 1970s. One of the biggest constraints on development in many station areas will be the assembly of land. In the current real estate market, demand for housing within Seattle is tremendous but there is a shortage of affordable sites on which to build. In other case, sites that could be ripe for redevelopment often go untouched because the property owner is not sufficiently motivated to sell.

Several developers expressed interest in having the City or Sound Transit assist in the assembly of land for new development around station area. Given the legal constraints on the ability of public agencies to acquire land for private development, other focus group participants felt that community development corporations, a consortium of area banks, or the Seattle Housing Authority would be better candidates for the land assembly role. One participant expressed the view that any entities interested in acquiring land should wait for the next drop in the real estate market to acquire property. Participants expressed a general concern that property owners near rail stations will try to exact too great a premium in the land costs. If land prices are set too high, then new development will not move in around the rail stations.

The focus group participants had comments about each of the major market areas that will be served by light rail:

- *Northgate and Roosevelt.* The real estate market north of the central business district is very strong right now. Northgate and the Roosevelt neighborhood are already the targets for significant new investments in housing and retail development. Given the strength of these markets, focus group participants thought these station areas could take care of themselves and would not need a lot of supportive policies. Several mentioned that it will

be important to make sure the design of any new development relates to the transit stop and provides good connections.

- *University District.* Several participants noted that there is very strong demand for affordable housing around the University and that little currently exists in close proximity to campus. Several big parking lots within one-quarter mile of the proposed station areas are ripe for housing development.
- *Capitol Hill/First Hill.* Since these areas are currently very strong real estate markets, the chief constraint is the availability of land for development. One developer said he would be building in the area at present if he could acquire a reasonably priced site for a multi-family or mixed-use development. Several participants expressed concern that the City's forecasts of development capacity in these areas were unrealistic. Even though some parcels are zoned for multi-family, they are unlikely to switch out of single-family use in the foreseeable future.
- *Downtown.* Office rents in the central business district are skyrocketing and many leases are expiring. Businesses that cannot afford a 50% increase in rent are now seeking new office space on the edge or outside of downtown. Light rail is unlikely to affect overall demand in the downtown, but it will make office space more attractive in some station areas outside the central business district that would have quick and ready access to downtown for meetings.
- *Stadium/Industrial Areas.* Focus group participants noted the many new developments underway near Union Station at the south end of downtown, and saw potential for more commercial uses near the stadium. Because of the low vacancy rates in the city, this area would be a logical place to develop new office space. One group discussed the conflicts that are bound to arise between the potential for more intensive—and higher value—commercial uses around transit stations and the City's desire to keep the land around Lander Street in industrial uses. Public policies to support transit-oriented development and industrial uses could come into conflict.
- *Rainier Valley.* Because of its history as an economically disadvantaged area, the Rainier Valley will likely require more active public policies and public investments to encourage private investment than the other market segments. Several participants mentioned the elevated levels of crime in these areas as posing a significant barrier to attracting market-rate housing. However, the strong current real estate market already has some developers acquiring land in the Rainier Valley with an eye toward developing new multi-family housing.

Participants believed parts of the Rainier Valley have significant potential for new development over the long run. Several mentioned the station stop at McClellan as a strong market area that has been revitalized with the introduction of Eagle Hardware and a QFC grocery store. However, the site presents real design challenges for developing a pedestrian-oriented environment that will continue to serve the high levels of automobile traffic and auto-oriented retail that currently exist.

- *Columbia City.* Columbia City already has many characteristics of a transit-oriented development, with its small storefronts and pedestrian character. Several participants felt that a light rail station at Columbia City would be a wonderful amenity that could en-

hance the economic vitality of the area and spur new housing and retail development. The redevelopment at the Seattle Housing Authority's Holly Park also provides an opportunity for more transit-oriented development because large parcels near these station areas are already in public ownership and scheduled for reconstruction.

FINANCING

Lenders who attended the interviews said that plenty of capital is available for feasible projects. However, all of the lenders acknowledged that mixed-use developments are more difficult to finance because of their experience with the City's NC zoning. This zoning requires retail space on the ground floor that is often difficult for the developer to lease. The high vacancy rates in these ground-floor spaces have resulted in lenders excluding any income from these spaces when qualifying a loan, even if developers had pre-leasing commitments. Everyone involved in financing new development encouraged the City to allow more flexibility and not force uneconomic uses into the bottom floors of multi-family buildings.

Lenders also acknowledged that they had little experience with some of the types of mixed-use developments contemplated for transit stations, and accordingly they were reluctant to generate loans that could not be sold on secondary markets. One group discussed the idea of having several area banks jointly create a loan pool that could invest in transit-oriented projects in a way that spread the risk over a larger group of lenders. This approach would enable lenders to develop a better understanding of the financial performance of these types of developments. A loan pool dedicated to transit-oriented development would also be a visible way for the banks to meet community investment obligations under the federal Community Reinvestment Act. A variation on this idea was to create a pool that would place options on properties around the light rail stations to assist in the assembly of land for redevelopment.

One lender discussed efforts with the development of "*location efficient mortgages*." This program would allow moderate-income families that are purchasing a home, townhouse, or condominium in an area served by transit to qualify for a larger mortgage than they would otherwise. The idea is that because these households are able to lower their transportation costs by using transit, they should be allowed to use this additional income available to qualify for a larger mortgage.¹

Several participants mentioned the potential role of Community Development Corporations in providing capital for affordable housing and new retail enterprises. Some CDCs have been able to take equity positions in joint developments that have succeeded, and they have developed the basis for a revolving loan or investment fund that can be reinvested into other projects. Housing authorities also have broad statutory authority to partner with both local governments and the private sector to develop, finance, and own housing-related facilities.

¹ Where transit can reduce monthly costs by \$300, a borrower requesting a location efficient mortgage could buy a house worth \$40,000 more because these commuting cost savings would be recognized in calculating the size of a mortgage for which an applicant can qualify.

Most of the focus group participants said that the City should not get into the development and financing business. However, they also agreed that the City does have a role to play in ensuring that financing for affordable housing is in place. The City can help through housing subsidies. Sound Transit could work with joint development concepts and long-term ground leases to help make financing work.

PLANNING

Many of the participants emphasized that light rail transit presents a rare opportunity for the City to encourage more dense development. One said, *“This is the last chance to see if the City is serious about growth management.”* Several developers expressed dismay at the City’s past decisions to downzone areas and constrain the amount of land available for multi-family and mixed-use development. They encouraged policymakers to be bold in their policies and make decisions that might be unpopular with some neighbors but are the right thing to do for the City’s future.

One important tool that could facilitate the implementation of transit-oriented development is the adoption of a Programmatic Environmental Impact Statement (EIS) or Planned Action EIS around the station areas. These plans would address all of the environmental effects of a complete buildout within the station area. By having the City do the environmental review once, developers and property owners would be able to expedite the permitting process and have confidence that their project would be approved. Reducing the time for permitting and reducing the uncertainty about approval could significantly expand the market for new development in the station areas. One developer noted that a couple of other cities in Washington have had good success with such a program.

Another comment was that design guidelines should flesh out details about the critical elements for TOD, to increase certainty and reduce discussion and debate about these elements during the review process.

Participants also emphasized the importance of careful station-by-station analysis, noting *“one size will not fit all station areas.”* The market development strategy must be sensitive to the demand in each area. The City should not discourage land uses that serve the neighborhood, nor should these be mandated, particularly where there is inadequate market information to justify regulations.

Many of the interview participants thought that it was important for the City to focus on a few station areas first and demonstrate an early success. If a mixed-use project with market-rate housing and commercial space succeeds financially, then there will more enthusiasm in the development and financial communities for subsequent projects.

DESIGN

All of the developers whose projects underwent the City’s design review process supported it and considered it an appropriate tool for ensuring quality design while providing flexibility. While some developers suggested ways to streamline the design review process, they all

thought it made sense for the light rail station areas. Participants reiterated the need for more flexibility in the design and configuration of new development within the city. Several developers criticized the City's zoning code as overly prescriptive and as an obstacle to designs that make sense and are sympathetic to the existing neighborhood. One strategy that could provide more flexibility is the development of a specific transit overlay zone in station areas, similar to the current pedestrian overlay zoning, which many felt works well. This type of zoning would allow more design options than the underlying zoning classification; it also could include density bonus provisions, which could be correlated with affordable housing requirements.

Several architects and landscape designers emphasized the importance of good design in station areas that is sensitive to neighborhood character. High quality is important for creating a pedestrian-friendly environment that encourages transit use. Participants also mentioned the importance of designing station areas in ways that enhance public safety. Adequate lighting and designing storefronts and apartments to keep "eyes" on the public spaces were mentioned as appropriate design strategies.

Several people emphasized the importance of orienting building entrances in ways that lead people out into public space and toward transit stops. If the first thing people see when they walk out their front door is their car or parking garage, then they are more likely to drive. If, however, people exit the front door onto a street that leads easily and naturally to a light rail station, they will be more likely to take transit.

An architect for a grocery chain explained their reluctance to embrace transit-oriented design for their grocery stores. Their surveys have shown that it is important for shoppers to be able to see parking in front of the store and have clear sight lines from the store entrance to their parking space. While he was aware of some grocery stores that worked with structured parking that was not in front of the store, he felt that his firm was unlikely to design stores that did not have sufficient parking in front. Other specialty retailers may be willing to go into a station area but he felt that the vast majority of people will continue to do their major weekly shopping at a large store with good automobile access.

ZONING REVISIONS

Many focus group participants encouraged City policymakers to upzone around station areas to allow denser development. They felt that current zoning was insufficient given the demand for housing in the market segments north of downtown. The need for upzoning is less pressing in the Rainier Valley, although increased flexibility in allowable building types would be welcome. Several developers supported the idea of a minimum density requirement and parking caps to ensure development at densities that would support transit use.

Participants continually stressed the need for more flexibility in design and construction and the importance of not forcing uneconomic requirements on firms building new space. One aspect of flexibility is to allow for space that could accommodate people who want to live and work at home. Ground floor units could be designed to switch between commercial and residential uses depending what types of uses the neighborhood economy would support.

Also, under current zoning, developers typically build the biggest, most expensive units on a site. To promote more affordable housing, one viable option is to eliminate the dwelling unit per acre standard, which biases a developer toward larger units, replacing it with a floor area ratio (FAR) or another type of zoning envelope that would allow for greater flexibility in the design and mix of units.²

Some participants feared that the neighborhood planning process has placed too many constraints on zoning changes. Even those neighborhood plans that have embraced the idea of increased density face opposition from others in the neighborhood once the changes move from conceptual plans to specific development proposals. To foster transit-oriented development, the City Council may need to make decisions that will generate opposition from some quarters. The City may be able to build greater local support for increased density by targeting public investments, such as pocket parks and other amenities to those areas willing to accept higher densities.

PARKING

Everyone agreed that parking would be a major concern within the light rail station areas. Developers of apartments and offices in station areas want lower parking requirements to reflect the fact that people who live and work near rail transit do not own and use cars at the same rate as the rest of the population. Lowering parking requirements reduces development costs and can make projects more affordable.

Developers of condominiums, on the other hand, generally agreed that they would want to provide parking at the levels currently required by code because their market would demand it. Condominium developers would tend to oppose parking maximums that might limit the marketability of their product. Considerable discussion focused on the idea of locating parking off-site for people who would use transit during the work week but would still own a car for weekend trips and to go shopping. If parking requirements were not relaxed, developers strongly favored allowing off-site parking to count as meeting the current requirements.

Participants expressed a variety of views about locating parking near transit stations to enable people to park and ride the light rail system. Several people were of the opinion that the City should locate underground parking near transit stations. If the City or Sound Transit does not provide parking, then there will be a strong tendency for people to park in the surrounding neighborhoods and walk to the transit station. Some of this parking could be avoided by having area parking permits. Several people expressed fear that ridership would suffer if the people had to take a bus and transfer to the light rail system. Accordingly, they supported parking around station areas.

Participants also commented favorably on parking caps and noted how they have worked in other areas, such as Bellevue and Portland.

² One developer is successfully selling 325 square foot units; with dwelling unit/acre limits, he would be less likely to consider this type of housing.

IMPLICATIONS FOR STATION AREA PLANNING

A handful of recommendations surfaced repeatedly when the interviewees were asked what three things the City could do to encourage transit-oriented development. The following summary reflects the most frequent responses.

- *Be bold.* City policymakers need to be visionary and make some tough decisions to realize the potential of transit-oriented development.
- *Tailor solutions to station area needs.* The best program for transit-oriented development will combine flexible zoning with targeted City resources and private resources. The City needs to listen to the neighborhoods and to the users of the system.
- *Establish predictability in the process.* Developers want to know what the rules are, so they can have greater confidence in project feasibility analysis. Anything that the City can do to reduce potential risk will improve the attractiveness of TOD as an option for real estate investment. Having a “fast-track” procedure for projects that conform to station area plans would be an attractive option for developers, as noted above.
- *Focus on a couple of stations early in the process.* It is important to show some early successes to build confidence and experience within the development community. Share the successes in other cities to build confidence in the City’s Station Area Planning program.
- *Adopt a flexible overlay zone in station areas with design review.* The City should employ an efficient design review process to allow greater flexibility for development within station areas while ensuring good design. Incentives and bonus provisions also can help. The City should quickly approve projects that meet these station area design requirements.
- *Adopt Programmatic or Planned Action EISs to streamline the permit process.* By conducting an area-wide environmental review on the full build-out of station areas, the City could substantially reduce the time and uncertainty associated with developing new projects.
- *Develop a comprehensive parking management program for station areas.* How parking is handled often is critical in making projects work financially. Eliminating current minimum requirements would be a good first step.
- *Target public investment in Southeast stations.* The stations in the Rainier Valley will likely require more public investment than those north of downtown. The redevelopment at Holly Park provides an excellent opportunity to create a diverse mix of housing and commercial uses near a new light rail station.
- *Work with lenders to develop pools of capital to support qualified projects in station areas.* Sharing the risk of lending to non-traditional product types can help build capacity and confidence within the lending community for mixed-use developments.